

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2013-10

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 3,
QUESTIONS 1-2, AND 6-7
(October 24, 2013)

The Postal Service hereby files its responses to questions 1-2 and 6-7 of
Chairman's Information Request No. 3, issued on October 18, 2013. Each question is
stated verbatim, and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Federal Register Notice, 78 FR 23137 (April 18, 2013) states that starting January 26, 2014, Full-Service Intelligent Mail barcodes will be required in order for mailpieces to qualify for automation First-Class Mail, Standard Mail, Periodicals, and Bound Printed Matter prices. Please specify what adjustments were made to the billing determinants pursuant to 39 CFR 3010.23(d) to reflect the redefinition of the automation rate cells. If no adjustments were made, please explain in detail how the redefinition of the automation rate cells is accounted for in the CPI-based price cap calculations.

RESPONSE:

No adjustments were made to the billing determinants to reflect the new DMM standard for what qualifies as “automation” mail. In this regard, we note that, under a plain reading of the language in 39 USC § 3622(d)(1)(A), the price cap applies to the rates noticed for change by the Postal Service. The cap does not apply to additional sources of revenue that might arise from changes in mailing rules that the Postal Service is statutorily authorized to issue. Under section 3622(d)(1)(A), the Commission is authorized to establish rules defining the cap limitation. In 39 CFR § 3010.23(d), the Commission has provided guidelines for calculating the percentage increase in rates noticed for change. These guidelines provide for reasonable adjustments to billing determinants to account for the effects of classification changes in calculating the percentage rate changes. The rule itself, however, does not contemplate including revenue increases from other sources, such as changes in mailing rules, in the price cap calculation. In this regard, it would not be appropriate, or consistent with the

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statute, to estimate the effect of a change in mailing rules as an addition to the percentage increase in rates. The cap limitation should be applied to the rates that will change, as set forth in the Commission's rules, not to any theoretical change in rates.

The Postal Service interprets 39 CFR § 3010.23(d) to require billing determinant adjustments when an MCS change moves mail from one category to another, regardless of mailer behavior. Changes to DMM standards are different. The expectation is that mailers will adjust their mail preparation to reflect the new mail standards, and thus continue to qualify for the same price cells. As a result, there will be no price increase, and thus no price cap impact.

If the Commission were to conclude incorrectly, however, that it had the authority to impose the revenue effect of the Postal Service's change in mailing requirements to affect its estimate of the percentage change in noticed rate adjustments, Rule 23(d) by its terms would lead to unrealistic results. It makes no sense to apply rule 23(d), and to use historical data to calculate additional revenue that would theoretically be generated from the DMM change, when in fact, no such revenue would be generated by the time of the rule's implementation.

For full service IMb, Rule 23(d)'s requirement to use historical data only would produce absurd results, and not come close to accurately showing what

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additional revenue the Postal Service might obtain from a rule change.

Application of Rule 23(d) would ignore the future impact of the Postal Service's numerous activities and extensive communication over the past few months to drive Full-Service adoption. These activities include:

- Sent letters to all permit holders who are mailing automation pieces in FY 2013, informing them about the January 2014 Full-Service requirement to claim automation rates.
- Conducted (still ongoing) Full-Service webinars to help mailers understand Full-Service requirements and how to migrate to Full-Service.
- Worked one-on-one with mailers to help them to transition to Full-Service.
- Reached out (still ongoing) to all permit holders through phone calls to ensure they were aware of the January 2014 Full-Service requirement.
- Certified 18 software vendors, offering approximately 40 Full-Service software products. These software vendors are actively working with their customers to migrate to Full-Service. Vendors have already deployed low cost / no cost solutions as additional options for customers who are already using their automation products.
- Provided discussion guides to all BMEUs to enable educated discussions and additional points to answer customer questions about Full-Service requirements.
- Provided handouts on Full-Service requirements and benefits of Full Service to all mailers coming to BMEUs.
- Developed the Intelligent Mail Small Business tool (IMsb) as an option for mailers mailing fewer than 10,000 pieces in a mailing and fewer than

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250,000 pieces annually to mail Full-Service mailings. More than 500 mailers have used the IMsb tool.

- Posted fact sheets, information guides, and presentations on Full-Service requirements, as well as lists of certified software vendors and software products, on RIBBS.

These continued outreach efforts should enable the Postal Service to drive many additional mailers to meet the Full-Service requirements ahead of the January timetable. The majority of non-Full-Service mailers contacted during current outreach efforts plan to move to Full-Service by the end of January. We have seen this type of mailer community response before. When we mandated migration from POSTNET to IMB in Jan 2012 the adoption jumped considerably (from 81 to 95 percent) right before the mandate date.

For the remaining non-Full-Service mailers, the Postal Service will conduct additional outreach over the next few months to educate these customers on the Postal Wizard and the IMsb tool as Full-Service options.

Moreover, in anticipation of the implementation of the new full-service IMb standard, the Postal Service stated in its Federal Register Notice (78 FR 23137 (April 18,2013)) that no assessments will be made as a result of any full-service electronic verification until July 1, 2014. Electronic documentation (eDoc) is required on all full-service mailings, but full service is not a requirement of eDoc. If mailers are working towards full service and have converted to eDoc, but are

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not completely full service in January, the Postal Service will give them more time to complete their conversion.

Based on the above, the new IMb standards are not accounted for in the CPI-based price cap calculations. Nonetheless, the Postal Service will provide the requested analysis (using historical rather than accurate data) in response to question 2.

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2. For First-Class Mail, Standard Mail, Periodicals, and Bound Printed Matter, the Full Service IMb volume for the hybrid year of Q4 FY2012 to Q3 FY2013 is provided in the aggregate.
 - a. Please provide disaggregated Full Service IMb volume for all categories of First-Class, Standard Mail, Periodicals, and Bound Printed Matter that will be affected by any Full Service IMb DMM change identified in question 1.
 - b. Please provide cap calculation spreadsheets for First-Class Mail, Standard Mail, Periodicals, and Bound Printed Matter that reflect the new prices that will be charged for the disaggregated volumes provided in response to subpart a of this question.

RESPONSE:

- a-b. Although it is inconsistent with the PAEA and not appropriate, the disaggregated volumes and updated cap calculation spreadsheets for First-Class Mail, Standard Mail, and Periodicals are provided in *ChIR3.Qu2.Response.FCM.xls*, *ChIR3.Qu2.Response.SM.xls*, and *ChIR3.Qu2.Response.Per.xls*, filed with this response. Supporting data are also filed with this response in *ChIR3.Qu2.Response.IMbAdoption.xlsx*. The Postal Service notes, however, that the resulting purported price cap impact numbers do not reflect any actual increase in revenues received from mailers (including those who fail to comply with the Full-Service requirement) on January 26, for the reasons presented in the response to question 1.

No Bound Printed Matter will be affected by the Full Service IMb DMM change identified in questions 1, so the spreadsheet provided on September 26 does not need to be updated. However, there were 18,279,000 BPM Flat pieces

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that received IMb discounts in the hybrid year. from the following hybrid-year

volumes:

Single Piece BPM-Flats:	3,589,169
Presorted Non-dropship:	21,655,642
Presorted DNDC:	22,339,796
Presorted DCSF:	80,028,813
Total:	127,613,520

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6. Pursuant to the 2010 Annual Compliance Determination (ACD), please provide:
- a. An explanation of how the proposed prices for Standard Mail Flats will move the Flats cost coverage toward 100 percent.
 - b. A statement estimating the effect that the proposed prices will have in reducing the intra-class subsidy of the Flats product.
 - c. All workpapers and data used to respond to subparts a and b.
 - d. An updated schedule of future above-CPI price increases for Standard Mail Flats.

RESPONSE:

- a-b. As the Postal Service explained in its Notice of Market-Dominant Price Adjustment, filed on September 26, 2013, Standard Mail Flats received an above-average price increase in compliance with the schedule of future price increases approved by the Commission in the FY2012 Annual Compliance Determination (FY12 ACD). As demonstrated in the excel workbook, *StandardFlats.xls*, filed with this response, the Postal Service estimates that the combination of the proposed price increase and anticipated costs savings will increase Standard Mail Flats' cost coverage to 87 percent in FY2013 and 89.7 percent in FY 2014. Similarly, the unit contribution shortfall for Standard Mail Flats is estimated to fall to 5.8 cents in FY2013 and 4.5 cents in FY2014, thereby reducing the intra-class subsidy. Accordingly, the Postal Service believes that the above-average price increase proposed in this case fully complies with the Commission's Order in the FY2010 ACD.
- c. See excel workbook, *StandardFlats.xls*, filed with this response.
- d. The Postal Service reaffirms its commitment to giving Standard Mail Flats above-average price increases of at least CPI x 1.05 in 2015 and 2016, as was approved by the Commission in the FY12 ACD. As the Postal Service stated in its Annual Compliance Report, filed on December 28, 2013, it does not believe

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that the schedule should be extended to post-2016 price increases at this time, as the Commission is slated to review the inflation-based price cap rules in 2016 pursuant to 39 U.S.C. § 3611(d)(3). With this reservation in mind, the updated table of future price increases is included below.

Year	Planned Flats Price Increases
2015	CPI * 1.05
2016	CPI * 1.05

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7. The following questions concern the Every Day Direct Mail (EDDM) Coupon Program.
- a. Provide the criteria that will be used to determine if a customer is eligible for an EDDM Coupon and the criteria used to determine if an eligible customer will receive a \$50 credit or \$100 credit.
 - i. Will all mailers who meet these criteria receive a coupon?
 - ii. If not, please explain.
 - b. Please explain how the Postal Service will ensure that the EDDM Coupon Program will not exceed \$3 million.
 - c. Attachment D states, "Internal USPS personnel such as the Sales organization would have the ability to issue a coupon with a promotion code to targeted, qualified new customers...."
 - i. Please describe how a "targeted, qualified customer" will be identified.
 - ii. Will the EDDM Coupon Program target certain geographic areas? If so, what areas?
 - iii. Will the EDDM Coupon Program target areas with specific demographic attributes? If so, what attributes?

RESPONSE:

- a. The intent of this program is to identify small businesses that are not currently using the mail, and to encourage them with an added incentive to use EDDM to market their products or business. New customers will be identified as those businesses which do not have an identified customer relationship with the Postal Service for sending direct mail. Through discussions with the potential customers, USPS Sales representatives will, based on an understanding of customer needs, determine the credit amount. The expectation is that a \$50 coupon will generally be used with the EDDM Retail service and the \$100 coupon will be used for EDDM BMEU mailings.

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- i. No, there is no plan to identify all potential recipients who meet the identified criteria.
 - ii. While a large number of small businesses may ultimately be eligible to receive a coupon, the Postal Service does not have the resources to identify and communicate to all potential recipients. The Postal Service's intention is to utilize existing lead management processes and to exercise reasonable discretion, to target potential new customers through outbound communications by its sales groups.
- b. The Postal Service will utilize a coupon management system that will track all coupons disbursed to potential customers and all coupons redeemed. This management system will control and validate coupons by a serial or promo code and an associated customer identification number. The Postal Service will use this system to monitor coupon activity and ensure that no more than \$3 million is redeemed under the program.
- c (i). Based on the Postal Service's knowledge of existing EDDM users, we will identify those industries and small business profiles that are best suited for the EDDM product solution and develop sales opportunities and communication strategies for those targeted businesses. We will qualify customers based on their specific needs, the size and revenue potential of the mailing, and the total potential value of the customer.
- c (ii). There is no plan to target recipients by geographic areas.
- c (iii). There is no plan to target recipients by specific demographic attributes .